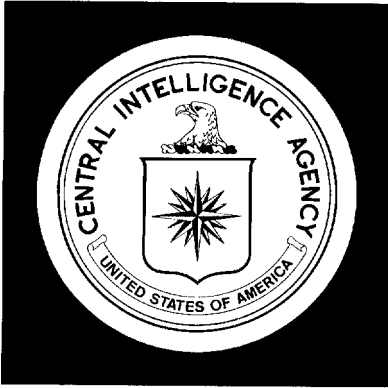


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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INDOCHINA

THE MOOD IN THE NORTH

While the USSR and China continue to show restraint in their reactions to events in North Vietnam, Hanoi is shrilly protesting the intensified bombing and has begun to implement contingency plans drawn up after the resumption of the bombing last spring. Hanoi is being evacuated, and perhaps other population centers as well.

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Year-end Lull

Communist military forces are lying low throughout most of South Vietnam as a result of the holiday military stand-down and the

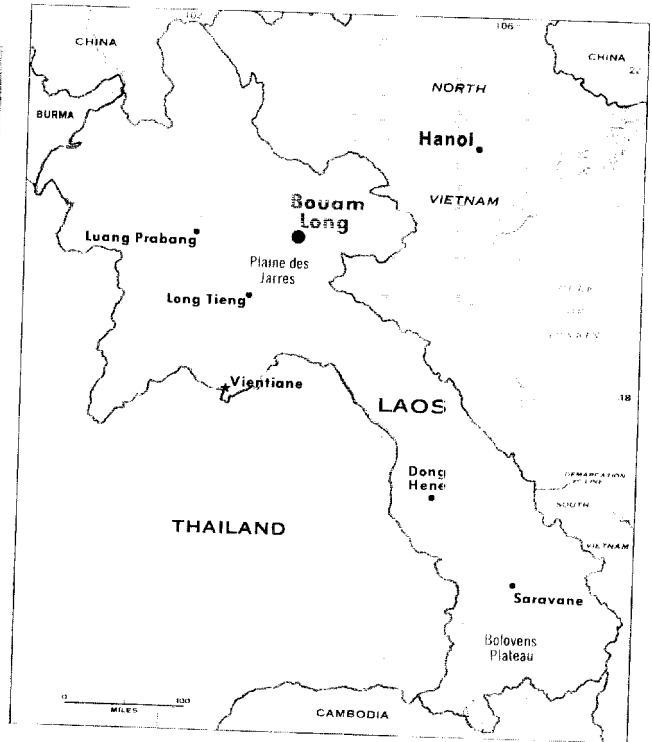


North Vietnamese Women Gunners

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Cher Pao Mua, Commander at Bouam Long



Bouam Long



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uncertainty about a cease-fire. Aside from strong defensive efforts against South Vietnamese operations on the Quang Tri front, the Communists appear content to rely on small-unit actions while making preparations for future military activity.

After weeks of positioning and several postponements, Communist artillerymen launched a number of rockets against Da Nang airfield during the past week, damaging a number of aircraft. These same artillerymen apparently plan additional attacks against this major target. In the western highlands, two North Vietnamese infantry regiments, supported by elements of an artillery regiment, are pressing South Vietnamese forces north of Kontum City. The Communists are using large-caliber artillery against South Vietnamese field positions near Fire Support Base November, and pressure on the base itself is increasing. Recently captured North Vietnamese soldiers say that the base was to have been overrun on 23-24 December. It was not, but if the Communists succeed in taking it, they will have eliminated the last government strongpoint in Kontum Province north of the provincial capital.

LAOS: BOUAM LONG DIGS IN

After almost three months of peace talks in Vientiane, there is little more government and Communist negotiators can do pending some movement in the Vietnam negotiations. This week, the 11th session of the talks produced only pro forma Communist rhetoric. Under the circumstances, a new cycle of fighting in Laos seems all but assured. Most of the fighting recently has been initiated by the government in the south, but the Communists are beginning to stir up north and are once again threatening the government base at Bouam Long, now the only government stronghold north of the Plaine des Jarres. The base is important as a staging area for irregular operations behind enemy lines, and over the years the Communists have expended valuable time and manpower trying to eliminate it.

Nestled in an elevated basin surrounded by commanding peaks, Bouam Long is a symbol of resistance to the mountain tribesmen who have long shouldered much of the burden of the fighting in the north. Many of its 8,500 residents are Meo refugees from the Plaine some 20 miles to the south. Virtually every family includes a soldier in Vang Pao's ranks, and the cyclical nature of the fighting in the area dictates the tempo of life. During the rainy season, local defenders lead other Meo troops flown in from Long Tieng on forays against Communist logistic facilities to the east and south. In October, when the roads start to bake dry and North Vietnamese supply trucks begin to roll, Bouam Long's people string fresh concertina wire and refurbish their bunkers in preparation for new Communist attacks. North Vietnamese regiments lay siege to the base during the early months of 1970 and 1971, but largely because of US air support, Bouam Long's defensive perimeter has never been breached.

This year, the Communists are concentrating a considerably stronger force in an effort to eliminate the base. Irregulars at outposts around the base have already clashed with enemy units, and on 26 December, Communist artillery crews fired the first salvo of this dry season into Bouam Long itself. A major ground and artillery attack was launched the next day.

Cher Pao Mua, Vang Pao's father-in-law and Bouam Long's military and tribal leader, has 1,200 troops in heavily fortified positions overlooking traditional avenues of attack and has armed several hundred villagers. The North Vietnamese can probably overrun the base, but they must be willing to pay a heavy price. The loss of Bouam Long, while removing a thorn from the Communists' side, would not, in itself, drastically affect the tactical situation in the north. But the morale of the mountain tribesmen, already seriously low after years of debilitating fighting, would suffer a severe blow if Bouam Long fails to hold.

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JAPAN WIDENS SEARCH FOR OIL

Tokyo has shown an interest in developing Canada's Alberta tar sands for the past several years. Although talks between the two countries appeared to have reached an advanced stage earlier this year, no agreement has been signed. An agreement would permit Tokyo to gain some control over a substantial petroleum resource and assure some oil imports in the event of an interruption of supplies from the volatile Middle East, where almost all of Japan's imports now originate. Estimates of the potential Japanese investment in the Athabasca River sands range between \$500 million and \$1.5 billion. Production is projected at some 250,000 barrels per day.

Recoverable oil from the sands is estimated at 300 billion barrels, almost as much as the Middle East's proved reserves and equal to about one half of the world's conventional crude oil reserves. The sands rank with the US shale deposits as the world's most extensive known, largely untapped oil source. Their exploitation has remained unattractive so far because of the extremely high extraction costs. This situation may change during the 1970s, however, given the recent large price increases for oil imported from members of the Organization of Petroleum Exporting Countries and the likelihood of substantial further rises.

Japan is already the world's largest oil importer, and its requirements are expected to more than double by 1980. The nation's extremely strong balance-of-payments position has caused the government to reverse completely its previous policy and to encourage overseas investment in minerals. Tokyo's interest in the tar sands dates back several years, but it was not until earlier this year that Tokyo decided to complete a feasibility study by the end of 1972. Edmonton has promised to make its policy views known at about the same time.

Although little information is available, the project probably would involve exchanging tar sand oil for US West Coast or Alaskan crude oil. Tar sand oil could be shipped to the US through an existing pipeline to Edmonton and then

through the interprovincial oil pipeline. The capacity of the former pipeline, however, would have to be increased.

After vacillating on the matter for some time, the Alberta government has now settled for exploiting the tar sands. This is largely because there have been no significant oil finds in the province since the mid-1960s and declining oil production is in prospect. Although Ottawa's attitude toward the sands remains unclear, the Canadian political system allows provincial governments considerable independence. Edmonton may, therefore, move ahead with tar sands deals even if Ottawa is not enthusiastic.

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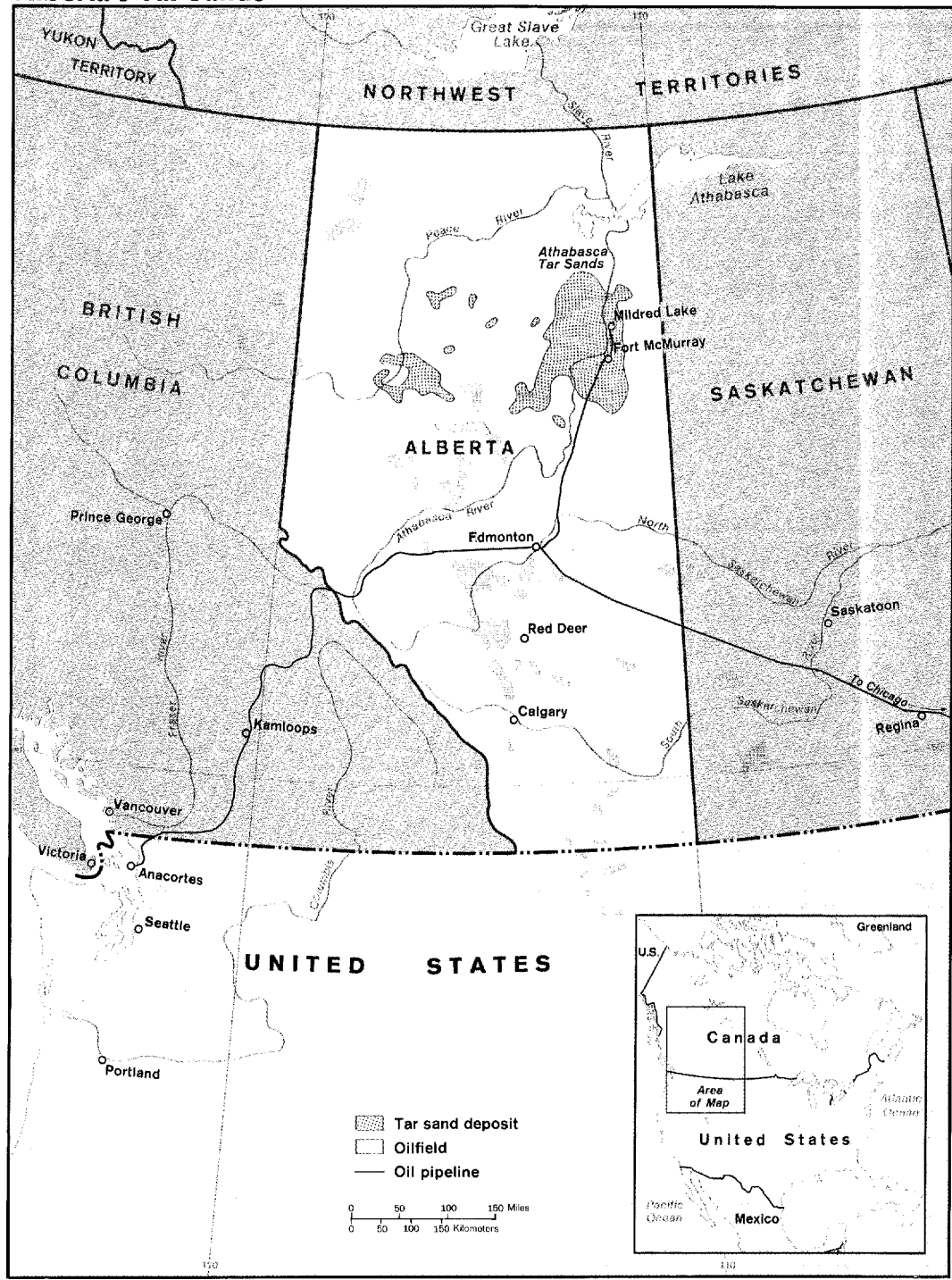
JAPAN: TO MEET NEW CHALLENGES

Confronted with a strengthened leftist opposition in the Diet and with mounting voter dissatisfaction, Prime Minister Tanaka is being forced to reassess the performance of the Liberal Democrats. Tanaka, himself, enjoys widespread personal popularity, but the glow of approval that followed the rapid normalization of relations with China last autumn is fading, and the Prime Minister must begin demonstrating his capacity to deal with problems at home.

Tanaka's new cabinet, named on 22 December in the wake of general elections earlier in the month, was assembled to meet these challenges. It did not bring in any members of Japan's flamboyant younger generation of politicians, but it did bring together a group of skilled, veteran administrators capable of tackling pressing domestic, as well as foreign problems. Tanaka also placed priority on selecting for the new cabinet Dietmen who can work effectively with the opposition. The key policy posts will be in the hands of Masayoshi Ohira, who remains as foreign minister, and Kiichi Aichi, the new minister of finance. Aichi, one of Japan's most respected

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Alberta's Tar Sands



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statesmen and Tanaka's chief foreign policy adviser, is a former foreign minister who will be responsible for two immediate and very sensitive issues—revaluation of the yen and control of retail and wholesale price inflation. Although Nakasone was retained as head of the Ministry of International Trade and Industry, Tanaka undoubtedly intends to continue to devote much of his personal attention to foreign trade problems—the source of serious irritation in relations with the US.

In addition to trying to strengthen the government's ability to meet the challenges of the 70s, Tanaka used the cabinet appointments to paper over factional differences in the ruling party. Takeo Fukuda, whom Tanaka defeated in the bitter race for the prime ministry last July, was persuaded to accept a minor post. Tanaka also used the reshuffle to increase his own control of the party, assigning the posts which draw the greatest monetary support from big business to his own loyal supporters.

Tanaka thus enters his second six months in office with many of the building blocks of effective political action—a firmer grip on the ruling party, a strong cabinet, and comfortable Liberal Democratic majorities in both houses of the Diet. He has still to prove, however, that he can cope with popular demands for reform at home and will surely have to risk temporarily angering certain important business interests if he is to secure the broader, and in the long run more important, support of the Japanese voter. [REDACTED]

THAILAND: ANOTHER FACE-LIFT

In Bangkok, constitutions and cabinets come and go, but the facts of political life and the faces of the politicians generally remain the same. The cabinet named to head up Thailand's latest constitutional structure is no exception. The key military leaders are all there: General Thanom Kittikachon is once again prime minister; Gen-



Prime Minister Thanom Kittikachon

eral Praphat Charusathien returns as deputy prime minister and looks more powerful than ever; General Krit Sivara, likely to succeed Praphat as head of the army, has solidified his ranking as the third most powerful figure by moving up to full cabinet rank.

The most interesting new face is General Chartchai Chunhawan, the deputy foreign minister, who owes his position primarily to family ties with Prime Minister Thanom. Chartchai returns from an obscurity dictated by his close association with the regime ousted by the military in the late 1950s, but his political ambitions and his family connections may yet combine to improve his political stature. For Chartchai to become a serious contender for power, however, he will have to overcome Praphat's suspicions. Moreover, his lack of a key troop command in the army—the sine qua non for a politically ambitious officer—precludes him from developing an independent power base any time soon.

The make-up of the new cabinet is perhaps more remarkable for those left out than for those brought in. Gone are two senior civilian officials who played major roles in previous cabinets—Pote Sarasin, the former second deputy prime minister in charge of economic policy, and Thanat Khoman, a former foreign minister. Thanom wanted them back; Praphat did not.

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Their loss is not likely to have a profound effect on government policy. The departure of mercurial and strong-willed Thanat, who kept the last cabinet in more or less constant turmoil, may, however, have a stabilizing effect on the running of the day-to-day affairs of the government. He contributed more than his share to the building up of frustration and irritation among the military that resulted in the abrogation of the old constitution over a year ago.

Unable to agree with Praphat on a compromise candidate for foreign minister, Prime Minister Thanom has taken on that portfolio. Economic policy now seems firmly in the hands of Praphat's close associate Prasit Kanchanawat, who gained diplomatic stature as a special envoy to Peking last September. As minister of commerce, Prasit will likely play a key role in Bangkok's move toward closer economic ties with Peking, something which both sides see as a step toward over-all improvement in relations. A significant number of civilian technocrats were given lower level portfolios. The upgrading of many of these faceless but competent bureaucrats to the policy-making level should strengthen governmental performance in the fields of finance and trade. [REDACTED]

Australia

CONTROLLING FOREIGN CAPITAL

Australia's new Labor government has acted to slow the movement of foreign capital into the country. After a year of heated debate involving Australian monetary authorities and the agriculturally based Country Party, the Australian dollar has been revalued by seven percent. The Country Party, a partner in the outgoing coalition government, had opposed revaluation because it would adversely affect agricultural exports. Australia's agriculture, already declining in importance relative to industry, faces a reduced market when the

UK, a major importer of Australian agricultural products, joins the Common Market next week.

While Australian agriculture will undoubtedly face some difficulty because of the revaluation, it is doubtful that it will be seriously harmed. The establishment of diplomatic relations with China will probably improve the opportunities for sales of selected agricultural products to that country, and the suspension of quotas on US meat imports should stimulate Australia's growing beef industry.

Australia's other exports, particularly minerals, will not be seriously affected by higher prices. Most of the minerals contracts are written in terms of US dollars which, because of the revaluation, will cause a drop in export earnings. The loss will be largely offset because most of the debt owed by Australia for development of the mineral deposits is also written in US dollars. The impact of revaluation on imports will be small because of the existence of high tariff barriers.

Along with the revaluation, Canberra announced further controls on foreign private capital. The government will continue the present embargo on overseas borrowings repayable within two years, and it has added a variable deposit requirements scheme for borrowings in excess of two years. Under this measure, a proportion of the proceeds of overseas borrowings will be deposited with Australia's Reserve Bank and will be released only after repayment of the loan.

Controls on borrowings were strengthened to reduce the inflationary pressures caused by the massive amounts of foreign private capital flowing into Australia. Such funds increased from some \$900 million in fiscal year 1970 to more than \$2 billion in fiscal year 1972. Foreign investment has been under close scrutiny for several months, and these measures underline Prime Minister Whitlam's intentions of returning his country's resources to Australian control. [REDACTED]

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USSR: CIRCUMSTANCE FOR POMP

The USSR celebrated its 50th anniversary last week with appropriate pomp and countless words of self-praise for its foreign and domestic accomplishments. Individual Soviet leaders met privately with many of the visiting foreign Communist leaders and with some of the representatives of the non-Communist nations. In relatively few cases, however, was significant business transacted.

Among the exceptions were individual conferences with the party chiefs of the Warsaw Pact nations and a meeting with Fidel Castro that resulted in the announcement of new but unspecified credits for Cuba. The Pact meetings reportedly dealt in part with the formulation of a position on force reductions in Europe and may not have gone smoothly. [redacted] the Brezhnev meeting with Romanian Party Chief

Ceausescu lasted three hours and was described as having been "frank"—i.e., the participants did not see things eye-to-eye. In consequence, [redacted] the Warsaw Pact may meet in January; if so, the responses of its members to the Western invitation to begin force reduction talks on 31 January probably would be delayed until after that gathering.

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Brezhnev's three and one half hour speech to the assembled Soviet and foreign dignitaries on 21 December was, for some, the highlight of the celebrations. The foreign policy section of the speech—presumably drafted in the weeks prior to its delivery—strongly restated Soviet interest in detente and hinted at new prospects for progress in several specific areas. This essential message was left intact, but the intensification of US bombing in North Vietnam and the breakdown of

Brezhnev Addresses Assembled Dignitaries



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peace talks in Paris did lead Brezhnev to insert some harsh criticism of the US and to link developments in Indochina explicitly with progress in US-Soviet relations. This is the first time a Soviet leader has made such a linkage in public since Kosygin did it in a speech 18 months ago.

Despite this, however, Brezhnev placed strong emphasis on the need for the great powers to live in peaceful coexistence. He had hopeful words on limiting strategic arms, saying that "it would not be a bad idea" to cut back on strategic weapons and to begin thinking about establishing limits on their qualitative improvement. As anticipated, he endorsed a Conference on Security and Cooperation in Europe, but his statement on force reductions—that the Soviet Union stood for the "serious preparation and efficient handling of these talks"—was somewhat less forthcoming. His comments on relations with the West contrasted strongly with the long list of accusations he leveled against China, ranging from "absurd" territorial claims to "open sabotage" of Soviet detente efforts in Europe.

On the domestic side, Brezhnev rendered the obligatory praise for the mutual benefits all Soviet nationalities derive from their union. With recent difficulties in Georgia and the Ukraine in mind, however, he warned against the danger that persisting nationalistic tendencies would "interweave" with other special—e.g., economic—interests in individual localities. Brezhnev also referred for the first time since 1966 to a new state constitution for the USSR. This was one of Khrushchev's pet projects, and Brezhnev has now pledged to have the constitution ready for nationwide discussion before the next party congress due in 1976.

Although Brezhnev looked haggard and tired by the final day of the celebrations, he delivered his long speech with vigor and appeared to have recovered from the illness that sidelined him during part of October and November. [REDACTED]

USSR: IN THE SUGAR MARKET

For the second consecutive year, Moscow has been forced into the world sugar market by a disappointing sugar beet harvest at home and the expectation of a mediocre cane crop in Cuba. In mid-December, the Soviets purchased 300,000 tons from Brazil and 50,000 tons from Australia, both for delivery in 1973. [REDACTED] another 200,000 tons from Brazil and up to 65,000 tons from Peru. The cost of these purchases may exceed \$100 million.

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The 1972 Soviet sugar beet crop was only slightly larger than the poor one last year when domestic beets yielded less than eight million tons of refined sugar. The USSR, however, requires at least 11 million tons to meet current consumption and export requirements. Cuba's cane crop, which may be as high as 5 to 5.5 million tons, will not be large enough to meet Cuba's own export commitments and fill the Soviet sugar gap.

To maintain domestic consumption and fulfill export requirements during 1972, the USSR was forced to enter the world sugar market in late 1971. Purchases reached nearly one million tons and cost an estimated \$125 to \$150 million. About half of these imports were made at the relatively low world prices prevailing in late 1971. Moscow's presence in the market was unusual and prices were driven up sharply; in fact, the spot price nearly doubled between late November and early January 1972. World prices reached a high of about ten cents a pound in early March and subsequently subsided. Last month the price was around seven cents. Then, in what appears to be a repeat of the 1971 experience, rumors of impending Soviet purchases initiated a sharp price rise. Announcement of purchases and the expectation of additional contracts have kept prices at near record levels through December. [REDACTED]

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SECRET**POLAND: GIEREK'S TWO YEARS**

Two years ago worker riots toppled the Gomulka regime; today, the Polish people enjoy a modestly improved standard of living and relatively stable political conditions. Party chief Edward Gierek is to all appearances solidly in control and has a large measure of popular support. Poland plays a more active role in foreign affairs now than it did under Gomulka. While the political machinery seems to run a bit smoother, Gierek faces a major task in making the economic system run better. It is on this that the ultimate success of his regime will depend.

The absence of any recent major changes in the ruling group is perhaps the best indication of political stability. A closely knit and effective "kitchen cabinet" composed of Gierek, Franciszek Szlachcic, Jan Szydlak, and Edward Babiuch appears to formulate party policy. A few of the more conservative party elements reportedly have reservations about some of Gierek's decisions, but he is fully aware of this opposition, has adroitly kept its adherents off balance, and appears confident that he can hold them under control.

A major goal of the regime has been to improve the standard of living, and it has made some real progress. Compared with two years ago, Poles now have a better choice of food, more consumer goods, and higher salaries in some fields. Their real wages have gone up an estimated six percent. Additionally, Western frills—such as Coca-Cola and French perfume—are more in evi-

dence, more foreign films are available, and opportunities for travel to the West are better. Little improvement, however, has been noted in the area of freedom of expression and information. Indeed, newspaper censorship may have increased.

Relations between the state and the important Catholic Church have continued the steady improvement that began in 1971. Clerical authorities reportedly feel freer to travel abroad or receive visitors. Their somewhat optimistic view of the future may in part stem from the informal talks now in progress to reach an agreement formalizing the position of the church in Poland and perhaps to establish ties between the government and the Vatican.

The Poles have labored to improve relations with the West. Responding to Chancellor Brandt's Ostpolitik, Warsaw established diplomatic relations with Bonn in September. The regime also has tried to improve relations with the US, Scandinavia, France, and Austria. At the same time, Poland also carefully maintains good relations with its Warsaw Pact allies, particularly the USSR. Though Moscow may be concerned about some of Gierek's actions—particularly his efforts to improve church-state relations—it recognizes his problems and seems willing to give him substantial leeway.

The major domestic problem facing the Gierek regime is economic. His approach to economic reform, so far, has been to tinker with the system. He reportedly believes that the people will not accept a really drastic economic reform plan. Accordingly, when he has been forced to decide, Gierek generally has chosen the politically wise rather than economically sound course. He understands that economic complaints brought the workers into the streets in 1970 and that they continue to have many legitimate gripes. He was sharply reminded of this by the recent trade union congress which showed that the workers retain much of their militancy and are conscious of their political power. If he is to flourish over the next few years, Gierek must find a way to satisfy the workers and still resolve serious economic problems that confront Poland.



Gierek and Workers

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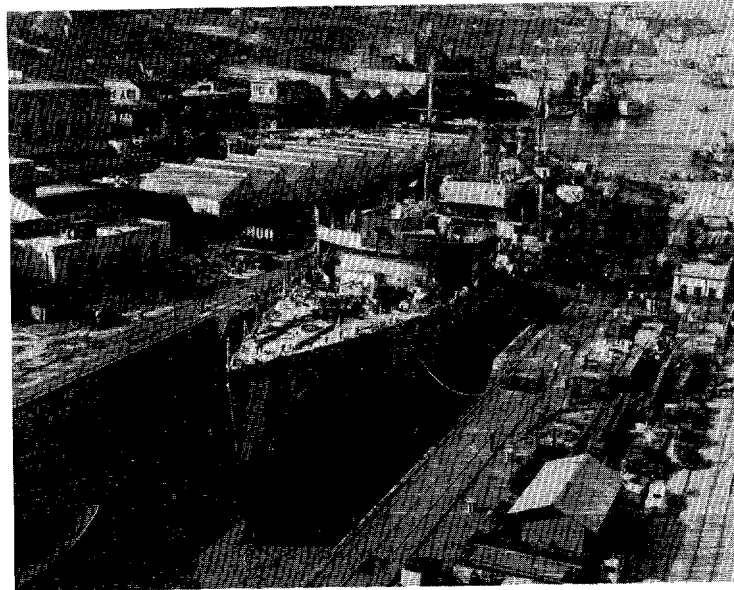
MALTA: TWO-MINUTE DRILL

Prime Minister Mintoff is standing on his demand that, if the UK and the other NATO allies do not compensate Malta for losses caused by the floating pound, British forces must leave the island in January. In his latest message to British Prime Minister Heath on 26 December, Mintoff appears to assume that London will not acquiesce. His message focuses on the withdrawal process itself. The Maltese leader made clear that he would like an orderly withdrawal and proposed that Britain pay a rental fee for the first quarter of 1973 to cover the anticipated period of the pullout. By giving London until the end of the year to decide whether it will in fact withdraw, Mintoff still left the door open to last-minute negotiations.

In notes exchanged late last week, Valletta and London had outlined their positions. Mintoff demanded an agreement on the devaluation question as well as settlement of two lesser issues: a possible shift in the boundaries of the Malta Flight Information Region and reinstatement of the security clearance of uniformed Maltese personnel serving with British forces. In reply, Heath declined to increase the rent payment, but said London intends to meet the 1 January installment—a payment Mintoff had said he would not accept. Heath reiterated London's willingness to discuss the other issues. Although he declared that the British would withdraw if asked to do so, he made clear that the departure this time would be irreversible and would take time.

Earlier, Mintoff had allowed himself room for maneuver by keeping details of the exchanges secret. He recognizes that many Maltese worry about the departure of British forces and the impact this would have on the sluggish Maltese economy. This week, however, he finally informed both the cabinet and the legislature of these developments. He probably limited the information he gave out to the bare essentials and presented it in such a way as to make Malta appear the victim of British perfidy.

Although there are many parallels between this crisis and the last one, there is one key



British Ship in Malta Drydock

difference: this time the allies are holding together better. Except for Italy and Belgium, the allies have stood firmly behind London's decision not to compensate Malta for losses caused by floating the pound. Britain met yesterday in an emergency session with its NATO allies to discuss the latest message, but there is little time—even should some countries be so inclined—to wait out a suitable compromise.

Because he has not been able to divide the allies this round, Mintoff will have greater difficulty than before in finding a way to squeeze out of his self-imposed bind. If British forces do indeed depart and the base agreement is terminated, Mintoff stands to lose considerably. Malta's economic growth will have been placed in jeopardy. Although the Maltese leader may have extracted promises of support elsewhere—Libya being the most likely alternative—he may, in the long run, find the conditions imposed for such support a heavy burden to bear.

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EUROPEAN SPACE COMPROMISE

West Europeans agreed in principle last week on a series of compromises that will permit work to go forward on a European launcher program and participation in the US post-Apollo space shuttle effort. It was also agreed to form a European Space Agency out of the existing European Launcher Development Organization and the European Space Research Organization.

The new space agency and the injunction that the launcher and post-Apollo projects be undertaken "within a European framework" could contribute to a unified European space program, but in practice the various space projects will be directed by the most interested participating member. The new launcher, a modified version of the Europa-III rocket, will essentially be a French program with some support from the Germans and others. The European contribution to post-Apollo will largely be a German responsibility, with Italy, Spain, and Belgium cooperating. The role of many of the smaller countries in these projects is undecided, and some are concerned that they will only have a small voice in managing the projects.

The new space agency, which is to be established "if possible" by 1 January 1974, is primarily the result of a British initiative. London, however, is not envisaging any new space expenditures, including, apparently, any contribution to the French launcher. The British are suspected of pushing the unified European approach in the hopes of eventually dominating development of a European communications satellite. In any case, the new agency will, in the beginning at least, be decentralized with a country or group of countries shouldering the responsibility for a specific project.

Meetings of the European Space Conference and of the European Space Research Organization will be held in January to discuss further participation in the post-Apollo effort, for which French support is still uncertain. Details of the

French launcher project also will be discussed. [REDACTED]

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FINLAND: THE EC DILEMMA

The Finnish Government still has not signed the free trade agreement with the European Communities negotiated nearly six months ago. Except for the Communists, all parties generally support the agreement, but the specter of offending Moscow and differences over minor domestic issues have blocked the final steps. President Kekkonen has tried to jog all concerned into action by threatening not to continue in office after 1974. His departure would make a Finnish-EC agreement much less palatable to Moscow, and this could induce the parties to put aside their petty differences and complete the arrangement with the EC.

The Soviets are far from enthusiastic about an EC arrangement for Finland; Soviet media, for example, warn darkly of the danger of political alliances that could develop from association with the Western communities. Such statements do not mention Finland specifically, but they do hit a sensitive nerve in Helsinki and keep Finnish politicians from supporting the EC treaty. Indeed, Helsinki is unlikely to act until Kekkonen has a clearer signal that he has Moscow's tacit agreement to go ahead.

On the eve of his departure to attend the 50th anniversary celebration of the Soviet Union last week, nearly all parties appealed to the President to "make himself available for an additional period." Kekkonen remained in Moscow an extra day to confer with the Soviet leaders, but there was no reference to the EC issue in the generally cordial communique following the talks.

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Kekkonen's arguments in Moscow should have been impressive. Over the past year, the Finns have been unstinting in their support of two of Moscow's favorite projects. First, Finland stumped for and is hosting preparatory talks for a Conference on Security and Cooperation in Europe. Then, Finland became the first West European country to recognize East Germany. In addition, Finland, moving to dispel Moscow's fears that an EC arrangement might tie it too closely to the West, has offered to negotiate a treaty with the Council for Mutual Economic Assistance for cooperation in "various fields." A high-level Finnish delegation is scheduled to visit Moscow for such negotiations in February. If the Soviets are still not satisfied, Kekkonen, who is regarded in Moscow as a guarantee of Finnish neutrality, could agree to stay in office after his term expires in 1974.

The Soviets may still insist that Finland delay the EC treaty until an arrangement is concluded with CEMA and until parliament enacts special legislation to extend Kekkonen's term. These issues would take several months to settle, and the Finns appear ready to live with such a delay. The government recently negotiated an arrangement with the UK and Denmark that extends the European Free Trade Association arrangement until 1 April, three months after the two countries join the EC.

YUGOSLAVIA MOVES ON DEBT

An intensified campaign against enterprise insolvency is scheduled to start next week. If fully implemented, it risks worker unrest over pay cuts and threatened job dislocations. Anticipating such possibilities, Belgrade already seems to be moving to soften the blow, but not to the extent that would take unprofitable firms entirely off the hook.

Under a new federal law, all firms with unsettled liabilities more than 90 days old will be

required to limit wage and salary payments to 90 percent of the 1972 average. The resulting funds are to be used to pay outstanding debts. The pay reductions would reportedly affect as many as one million Yugoslav workers, but the brunt of the pay cuts would not be borne evenly. In Serbia and Croatia, around 40 percent of factory workers would be affected. In more developed Slovenia, only 14 percent face reductions, and in Kosovo—the most backward area—60 percent of the workers could receive smaller pay packets.

Another major measure to combat insolvency is a tougher bankruptcy law. In August, enterprises were allowed four months to arrange to pay their creditors. Many firms failed to do so and now face court-ordered involuntary settlement or even bankruptcy proceedings. The fact that few enterprise managers met the deadline suggests that they feel they will, as in the past, be bailed out by the government.

Indeed, fears of economic—and perhaps political—disruptions have led Belgrade to modify the belt-tightening program. In the past two weeks, republic governments have been given authority to remit enterprise taxes or even grant subsidies in order to minimize the scheduled pay cuts. Furthermore, 700,000 federal and republic employees have had their wages frozen. This freeze could help the republic governments to finance subsidies for enterprise workers.

Insolvency—a severe problem since the 1965 economic reform—has been aggravated by tight money policies aimed at reducing inflation. Insolvency reached a crisis this year, as even profitable firms were hurt by widespread defaults by less efficient firms. Despite the moves already made to dilute the new measures, the federal government has finally shown enough backbone to try for a temporary check on both insolvency and inflation. Belgrade must, of course, be careful to avoid dangerously depressing Yugoslav morale—already at low ebb due to a series of political purges.

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INDIA-PAKISTAN: PULLBACK AT LAST

On 20 December, over three months after the original deadline, India and Pakistan completed withdrawing their troops from the territory of the other except in the disputed state of Kashmir, where both sides will retain the territory they seized in the war a year ago.

Despite the problems in arranging it, the troop withdrawal was probably the least difficult of the major issues between the two countries. Neither side had expected to retain the occupied territories in a peace settlement.

Some minor issues, such as restoring communications, the repatriation of Pakistani Hindus who fled to India and of troops captured on the western front, as well as the restoration of diplomatic relations, have either been resolved or may be settled soon. The remaining major issues include:

- Pakistani recognition of Bangladesh;
- the repatriation of some 90,000 Pakistani prisoners of war now in India;
- the status of the Bihari minority in Bangladesh and the Bengali minority in Pakistan;
- the final status of Kashmir.

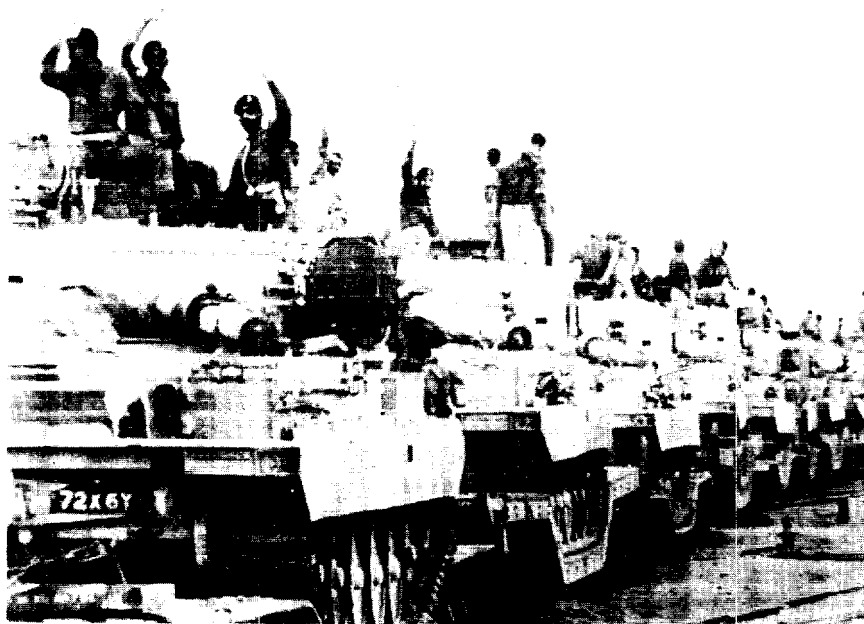
Both sides appear willing to live with the status quo in Kashmir for the time being, so the next steps toward a settlement are likely to involve Bangladesh as well as India and Pakistan. The Bengalis still plan to try some prisoners—probably about 200—as war criminals, and the Indians still refuse to release any of the prisoners without Bengali con-

currence. The Bengalis refuse to discuss anything with Islamabad without prior diplomatic recognition. President Bhutto has been attempting to convince his people that recognition of Bangladesh is necessary, but his arguments have led to violence in Lahore and other cities in the important Punjab Province. Bhutto, in a recent interview, stated that recognition would not occur before parliamentary elections in Bangladesh, now slated for next March.

Dacca would like the repatriation of the several hundred thousand Bengalis in Pakistan—especially the soldiers and civil servants—but apparently not enough to make concessions on other issues. As for the Biharis in Bangladesh, they remain surrounded by a hostile population, but interest in their fate is declining in Pakistan, and their future appears even more dismal.

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Indian Armored Forces Withdrawing from Pakistani Territory



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BANGLADESH

RIISING ANTI-AMERICAN TIDE

The campaign for parliamentary elections next March and public opposition to the renewed US bombing in North Vietnam have led to verbal and physical attacks against US interests in Bangladesh.

Actual violence, thus far, has been confined to USIS installations in Dacca, in the port city of Chittagong, and in two remote district capitals. The initial affronts came in early December in Dacca and Chittagong and involved the painting of slogans and a display of anti-American posters on USIS walls, but only minor damage to the facilities. On 22 December, however, the USIS building in Dacca was vandalized by a group of students supporting the pro-Moscow wing of the National Awami Party. Two days later, the USIS Center in Chittagong was virtually destroyed by a group of about 600 young men led by radical student leaders. The USIS building in a district capital was gutted on 26 December. All three attacks were ostensibly to protest the resumption of US bombings in Vietnam. Police in Dacca and Chittagong were present but provided no protection.

The violence may have also been stimulated by a recent spate of accusations against the US by leading members of the government and of the ruling Awami League as the election campaign gets under way. On 1 December, the minister of Land Reform and Land Administration denounced "US imperialists" for attempting to create disorders when Bangladesh was founded a year ago.

Awami League spokesmen over the past two months have accused an American foreign service officer in Dacca of being a CIA agent, blamed "US imperialists" for domestic disorders, and charged the CIA was trying to cripple the economy by burning down jute warehouses. The prime minister's political secretary recently warned against "ultra-revolutionaries who had been taking money from Sino-American agents."

The US probably will continue to be the primary whipping boy for politicians of all stripes, at least until after the coming elections, as Moscow-leaning politicians and radical student leaders exploit every opportunity to embarrass the US.

SYRIAN CABINET CHANGES

Syrian President Asad this week appointed ex - vice president Mahmud Ayyubi as prime minister. The former prime minister Khulayfawi had resigned for reasons of health. Ayyubi's 30-man cabinet contains nine new ministers; several former ministers lost their jobs. Defense Minister Major General Tlas reportedly has been at odds with Asad, but he retains his key post.

None of the shifts is in any way suggestive of a departure from what has come to be described as Asad's "moderate, pragmatic Baathism." His new cabinet conforms to the "National Progressive Front" Asad instituted earlier this year. Sixteen Baathists dominate the government, but it also includes two Communists, eight from other Syrian socialist parties, and five independents.

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Prime Minister Ayyubi

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INDIA FAILS TO AVERT HUNGER

Drought has affected crops in many areas of the country, and acute food shortages are already evident in a wide belt across central India. Hunger is likely to be widespread and to last until the spring harvest begins in April.

Government foodgrain stocks, which totaled nine million tons in August, had dropped to four million by 1 November and to 3.2 million tons a month later. To make matters worse, the government by its actions is hampering the movement of grain in private hands. It has forbidden private traders in some surplus states to ship outside their states, thus aggravating food shortages in nearby drought-affected states. State officials say that the central government has provided them with only half the amount of foodstuffs needed in recent weeks. US officials and volunteer agencies

on the scene believe that the central government has neither the stocks nor the distribution capacity to deal with the emergency.

The government has purchased an estimated 500,000 tons of foodgrains abroad since mid-November, but these supplies probably will not begin to arrive in substantial quantities until February or later. Because imported grains usually are distributed to the large coastal cities, these imports will do little to help the inland areas, which are the hardest hit. Distribution channels may be further disrupted by New Delhi's use of the emergency situation to push the state governments into taking over the wholesale grain trade beginning with next spring's harvest on the grounds that this will ensure more equitable distribution. [REDACTED]

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THE BAHAMAS AND INDEPENDENCE

A delegation led by Prime Minister Lynden O. Pindling has been in London trying to hammer out an agreed constitution for an independent Bahamas. A communique issued at the conclusion of the week-long talks said that agreement had been reached "in substance." It would thus seem that despite opposition to the idea from a small group of pro-British Bahamians from the island of Abaco, the way has now been cleared for the Bahamas to acquire independence on 10 July 1973. The future of the three US-defense related installations in the islands was not discussed in London, but the British secured Pindling's agreement to tripartite talks and gave him the US position on continuation of existing base agreements.

The main point of contention during the talks was what criteria to be used for establishing Bahamian citizenship. According to the release, it was agreed that at the time of independence citizenship would be extended automatically to all citizens of the United Kingdom and colonies

who acquired that status by naturalization or registration in the Bahamas, with the exception of: persons with dual nationality; persons who are not resident in the Bahamas at the end of 1972; persons registering after the end of 1972; naturalized persons registering after the end of 1972; and naturalized persons who indicate that they do not wish citizenship. The Bahamian Government is planning to institute firm guidelines on immigration and citizenship and may not as a general rule allow persons with dual nationality to remain in the islands.

Pindling has been pressing London to grant full citizenship to individuals not wishing to remain in the Bahamas after independence. London, however, still smarting from the sudden arrival of some 25,000 Ugandan Asians, may not be willing to throw open its doors to another influx of expatriates, especially since a number of other Commonwealth Caribbean nations are also pressing for independence. [REDACTED]

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PANAMA: CANAL PUBLICITY

The Torrijos government is busily assessing the effect of its release on 12 December of the details of the US and Panamanian positions on a canal treaty, which had been presented in secret session. The government apparently hoped that the release would force the US to make additional concessions on the canal treaty and also lay the groundwork for a renewed campaign to gain international support for its negotiating position.

In releasing information on the canal negotiations, the government was again trying to portray itself as dynamic and aggressive, while at the same time admitting that no progress had been made. The government won domestic plaudits for standing up to the US and re-established its nationalistic credentials by showing it was insisting on all of the concessions dear to the hearts of Panamanian zealots. It also immunized itself against charges that the regime had worked out a deal without consulting the people.

Torrijos has been trying to persuade the US that Panama needs a treaty that satisfies basic longings for jurisdiction over the Canal Zone and the return of the canal itself within a reasonably short period of time. Torrijos apparently hoped that by committing his government publicly to a set negotiating position he could convince the US of his determination. He probably believes that the tougher he is and the more the US is convinced he is locked into a position, the more it will be willing to consider additional concessions.

As part of his efforts to gain concessions, Torrijos has claimed that he was under strong pressure from students and others. The implica-

tion was that failure to reach agreement on Panama's terms could lead to a repetition of the 1964 riots. In fact, the treaty issue had provoked surprisingly little spontaneous interest, and Torrijos was under no public pressure whatever. The canal publicity seemed designed to create a popular mood that could be manipulated by the government to convey an image of public impatience.

Torrijos showed little concern about the impact that the release of the details concerning the secret negotiations might have on the talks themselves. Long dissatisfied with the way the talks were going, suspicious of "diplomacy," unconvinced that ambassadorial level talks could yield results, and concerned that Panama and the canal issue were not getting as much attention in the US as he thought they should, Torrijos evidently concluded that the best way to break the logjam would be to deal with the problem at a higher level. This would permit him to spell out his own political requirements and allow him to judge for himself what was attainable and what was not.

Panama's belief that it can improve its position in the bilateral negotiations by demonstrating broad international support may have contributed to the decision to publicize the canal talks. Torrijos has sought a UN Security Council meeting in Panama in March, in part to garner such international support. He wishes to get Panama's position on the canal issue before the delegates and before the world press, but he is probably aware that he must measure his course carefully so that it is bold enough to capture headlines yet restrained enough to avoid a complete rupture of negotiations.

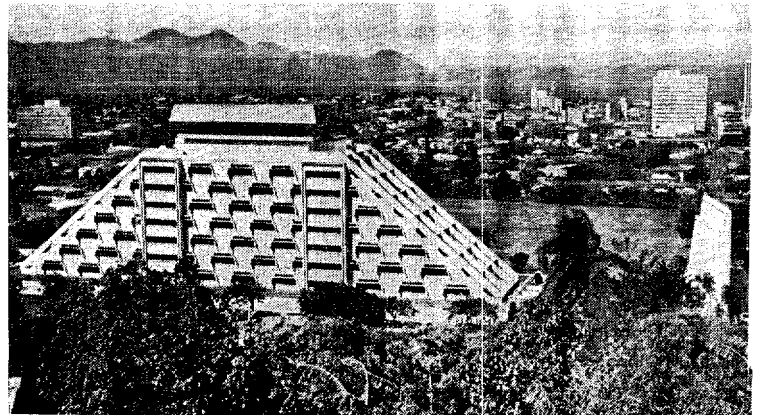
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NICARAGUA: QUAKE DESTROYS CAPITAL

Nicaragua is the scene of a massive disaster relief effort as a result of the devastating earthquake that left the capital, Managua, in ruins just two days before Christmas. The US responded at once with some 50 planes full of food, medical supplies, complete field hospitals, water purification equipment, tents, cots, and electric generators. Aid from other countries of the hemisphere, including Cuba, as well as from Britain and other Western European countries, began arriving shortly thereafter. In order to speed relief from El Salvador and Guatemala, Honduras opened the Pan American Highway to traffic from El Salvador for the first time since the "soccer war" three and a half years ago.



Managua Before and After

General Anastasio Somoza, the national guard chief and former president, is directing rescue efforts. He has put the city under martial law, and guardsmen are out to prevent looting. Although medical assistance is sufficient for the moment, there is a critical shortage of food and potable water, and General Somoza has directed that refugee reception centers and food distribution points be relocated outside the capital in order to force evacuation of the city's remaining inhabitants to safer areas.



Of Managua's 400,000 residents, some 20,000 have been treated for injuries, and estimates of the dead range from 6,000 to 10,000, about 2,000 of whom have been buried or cremated. Many remain trapped in collapsed buildings. Broken water mains have prevented control of several large fires in downtown Managua, while parts of the city have sunken below the level of the nearby lake and are flooding. About 75 percent to 80 percent of the city was destroyed, including the presidential palace, the US Embassy, the three largest hotels, and virtually all the hospitals. Many buildings still standing are unsafe and could collapse at any time. This is Managua's third serious earthquake in the last century and officials, considering rebuilding, are thinking of putting the capital at another location.

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CUBA: MOSCOW MISSION MUTED

The reserved attitude of the Cuban press regarding Fidel Castro's trip to Moscow on the occasion of the USSR's 50th anniversary suggests that Havana viewed the week-long sojourn with all the enthusiasm of a boy going to the dentist. Although Castro's entourage included almost two dozen colleagues, a terse Cuban announcement on 18 December identified only three by name, and the delegation's departure from Havana and its return on 24 December were attended by only a handful of top government officials instead of the cheering mobs so quickly organized on more pleasant occasions. Even though Castro came home with new trade and aid agreements, Havana has clearly signaled its dissatisfaction with the inferior role it has to play in the Havana-Moscow relationship.

Included in the Castro delegation were the ambassador to the USSR, Raul Garcia Pelaez, Vice Prime Minister Carlos Rafael Rodriguez, and the party first secretary in Havana Province, Jose Ramon Machado Ventura. The first two are unexceptionable, but by including Machado Ventura, the Cubans may have been trying to remind the Soviets of the low point their relations had reached in late 1967. At that time, Machado Ventura, a political non-entity who was serving as public health minister, replaced President Dorticos at the last moment as Cuba's representative at the celebrations on the 50th anniversary of the October Revolution in a deliberate and unmistakable slight intended to insult the Soviet hosts. He still is involved in domestic rather than international matters.

If Machado Ventura's presence was designed to irritate the Soviets, Castro's personal behavior

in Moscow was not. He dutifully attended two days of sessions of the Central Committee and the Supreme Soviet, visited places of historical interest in and about the city, rode the Metro and, in an interview on television, praised the USSR highly and avoided subjects of a controversial nature. Such problems as he has with the Soviet leadership were evidently not for public airing at this time.

Cuban and Soviet press sources were both brief in reporting on the new agreements signed in Moscow. Havana radio, paralleling TASS, described them as "concerning the development of cooperation between the two nations," specifically involving several basic branches of Cuba's industry, transportation, and agriculture. Havana said, "Agreements were reached concerning the conditions for the utilization of present credits and the granting of new credits to Cuba." Nothing was said about the size of the new credits or what they might be used for, but Soviet media have been playing up Moscow's assistance to Cuban nickel production lately and the CEMA countries may expect to import more of this mineral to help offset any new credits.

Castro did make use of his travels to further his personal contacts with other government leaders. On 19 December, he breakfasted with King Hassan during a refueling stop in Rabat and, while overflying Algeria, sent a message reminding Premier Houari Boumediene of his coming visit to Cuba. On the return flight, Castro went for a toboggan ride in Gander, Newfoundland, while his plane was being serviced. He had hoped to get to Montreal, but a heavy snowstorm forced him to fly directly to Havana.

Castro Addresses Soviet Central Committee

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